AR60

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

Sunfire Energy Corporation

1996 Annual Report

CORPORATE PROFILE

Sunfire Energy Corporation is an Alberta based company engaged in the exploration for and production of crude oil and natural gas.

The Company presently confines its exploration and development activities to a limited number of areas in Alberta where it has developed expertise. If possible, the Company maintains operatorship and markets its oil and gas production in order to maximize cash flow.

The Company's primary objective is to build shareholder value through the discovery of crude oil and natural gas reserves.

The Company is headquartered in Calgary and its common shares are listed on The Alberta Stock Exchange under the trading symbol **SFE.A**.

TABLE OF CONTENTS

Corporate Highlights	1
Report to Shareholders	2
Operations Review	3
Property Review	7
Financial Statements	11
Corporate Information	Inside Back Cover

ANNUAL GENERAL MEETING

Shareholders are invited to attend the Annual General Meeting of the Corporation which will be held in the Banff Room at The Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta on Thursday, January 23, 1997 at 2:30 p.m.

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

HIGHLIGHTS

FINANCIAL

YEARS ENDED JULY 31	1996	1995
	$	$
Gross Revenue, less royalties	1,072,051	1,399,150
Cash flow from Operations	551,609	905,764
Per Share *	0.131	0.212
Net income	66,107	346,578
Per Share *	0.016	0.073
Capital Expenditures	1,015,686	1,358,393
Working Capital (Deficiency)	(190,507)	42,413
Shareholders' Equity	5,348,387	5,304,740
Number of Common Shares Outstanding	4,206,090	4,261,590

* Based upon the weighted average number of common shares outstanding during the fiscal year, namely 4,223,998

OPERATIONS

YEARS ENDED JULY 31	1996	1995
Production		
Crude Oil (Bbls/d)	43	43
Natural Gas (Mcf/d)	1,330	2,016
Reserves - Proven & Probable (net of royalties)		
Crude Oil (Mbls)	245	277
Natural Gas (Mmcf)	5,032	4,578
Present Value of Reserves (discounted at 15% before taxes)	$5,225,000	$5,097,000
Undeveloped Land Holdings		
Gross Acres	55,360	45,471
Net Acres	24,283	19,478

ABBREVIATIONS

Bbls	barrels
Bbls/d	barrels per day
Mbls	thousand of barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mmcf	million cubic feet
ARTC	Alberta Royalty Tax Credit

REPORT TO THE SHAREHOLDERS

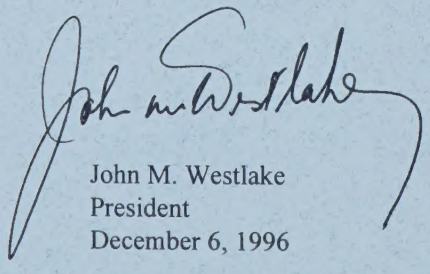
During the fiscal year ended July 31, 1996, the Company experienced a difficult period. Projected cash flow from operations did not meet our forecast. An unexpectedly rapid decline in natural gas production from our Thorhild property required the Company to refocus its activities to restore production revenue. Disappointing drilling results at both its Ronalane and Bruderheim oil properties further aggravated the situation. Consequently, ambitious plans for a number of exploration prospects were deferred until the forthcoming year.

Apart from an exploratory well drilled by a third party under a farmout agreement on its Springburn property, the Company's drilling activity was confined to enhancing production from its core properties. At Bruderheim, two wells were drilled resulting in low productivity oil wells, while the Ronalane development well was abandoned having encountered a depleted reservoir. Drilling at Thorhild was more successful with three gas wells producing at a combined rate of 2,300 Mcf/d being added to the production base. A disposition of a minor working interest property was concluded at Smoky Lake, which together with the sale of two other properties having limited potential raised sufficient funds to expand our holdings at Thorhild. The acquisitions at Thorhild will serve to increase our access to the production infrastructure and afford the opportunity to strengthen our gas reserve base during the forthcoming year.

The value of the Company's shares remains well below asset value, and as a consequence the Company continued to repurchase its shares under the provision of a normal course issuer bid. The bid expired on May 9, 1996, at which time the Company had purchased a further 55,500 shares for an average cost of 40¢ per share during the fiscal year. The normal course issuer bid will probably be reinstated during the forthcoming year.

Management remains committed to enhancing the natural gas production and reserves at Thorhild. Approximately half of the Company's capital expenditures for the forthcoming fiscal year will be directed towards achieving this objective. The balance of the capital budget will be devoted to various exploration prospects where the Company has a competitive advantage as a consequence of its extensive seismic data inventory. In most cases, the financial exposure at the drilling stage will be limited to an acceptable level through various joint venture arrangements with industry partners. We remain confident that this combination of lower risk development and potentially high reward exploration will provide for profitable revenue growth and the addition of substantial asset value.

ON BEHALF OF THE BOARD OF DIRECTORS



John M. Westlake
President
December 6, 1996

OPERATIONS REVIEW

DRILLING

During the fiscal year ended July 31, 1996, the Company participated with an average 34% working interest in the drilling of 7 wells with the following results:

Drilling Activity in the Year ended July 31

	1996		1995	
	GROSS [1]	NET [2]	GROSS [1]	NET [2]
EXPLORATION				
Oil	0	0	0	0
Gas	2	0.71	1	0.27
Dry	0	0	4	1.12
	2	0.71	5	1.39
DEVELOPMENT				
Oil	1	0.23	4	0.98
Gas	2	0.57	2	0.57
Dry	2	0.88	2	0.83
	5	1.68	8	2.38
TOTAL	7	2.39	13	3.77

Notes:
(1) "Gross" wells means the number of wells in which the Corporation has a working interest
(2) "Net" wells means the aggregate of the numbers obtained by multiplying each Gross well by the Corporation's percentage working interest therein.

A deep exploratory well was drilled, at no cost to the Company, under farmout agreement with an industry partner. This well was unsuccessful and was abandoned.

PRODUCTION

During the fiscal year ended July 31, 1996, the Company's natural gas production declined by 34% to a total of 486,886 Mcf from 735,817 Mcf. This volume is equivalent to a daily average of 1,330 Mcf for the year compared with an average of 2,016 Mcf/d in the prior year. The majority of the decrease in volume resulted from the decline of a large working interest high volume gas well at Thorhild. The Company's net crude oil production was unchanged at a total of 15,659 Bbls, equivalent to a daily average of 43 Bbls/d.

LAND HOLDINGS

In the reporting year, the Company expended $127,766 for the acquisition of 19,572 gross (8,316 net) acres of petroleum and natural gas rights from freehold owners and at Alberta Crown land sales. The average cost of the land acquisitions was $15 per acre. In addition to augmenting our holdings in existing core areas, land was acquired in several areas where new exploration prospects will be pursued in the forthcoming year.

Land Summary at July 31, 1996
(all lands are located in Alberta)

	GROSS [1] ACRES	NET [2] ACRES	ROYALTY [3] ACRES
UNDEVELOPED	55,360	24,283	160
DEVELOPED	25,920	7,135	4,720
	81,280	31,418	4,880

Notes:
(1) "Gross" refers to the total acres in which the Corporation has an interest.
(2) "Net" refers to the total acres in which the Corporation has an interest multiplied by the percentage working interest therein owned by the Corporation.
(3) "Royalty" refers to the total acres in which the Corporation has the right to receive a share of revenue as a royalty.

FINANCIAL ANALYSIS

Total production revenue for the fiscal year ended July 31, 1996, was $1,090,498 compared with $1,338,141 in the prior year. Decreased sales volumes of natural gas was the main contributor to revenue decline. The natural gas sales price remained stable during the fiscal year, consequently, the average fieldgate price received by the Company for sales of natural gas increased to $1.37 per Mcf from $1.32 per Mcf in the prior year. The strength in international crude oil prices improved the wellhead price received by the Company for the sale of crude oil by 9% to an average of $23.56 per Bbl. For the year, the share of total production revenue provided by natural gas sales was 64% and by oil, 36%.

On an oil equivalent basis (BOE), utilizing 10 Mcf = 1 BOE, production and administrative expenses increased by 46% to $8.12 per BOE mainly due to lower levels of gas production. Netbacks, after royalties and operating costs, for natural gas decreased to $0.86 per Mcf from $1.03 per Mcfd as a result of lower sale volumes, while the netback for crude oil improved to $12.17 per Bbl from $10.91 per Bbl.

Cash flow for the year was down 42% at $522,369 compared to $905,764 in the previous year. This cash flow together with a bank credit facility and the proceeds of minor property dispositions was applied to capital expenditures of $1,015,686. These capital expenditures were directed to the following main categories (prior year's expenditures are indicated in brackets); drilling and completion $673,485 ($739,280), purchase of petroleum and natural gas rights $141,766 ($258,155) and equipment and pipelines $126,646 ($142,814).

At July 31, 1996, the Company's working capital deficit was $190,507 and financed by application of a credit facility of $680,000 available with a Canadian chartered bank.

PETROLEUM AND NATURAL GAS RESERVES

The Company's reserves were estimated as at August 1, 1996, by the independent petroleum engineering firm of Martin Petroleum & Associates Ltd. of Calgary. The volumes and estimated present value of the Company's proved and probable reserves, as determined by Martin, are shown in the following table. The values are forecast after the payment of operating expenses, capital costs and royalties, but prior to the payment of income taxes and indirect costs such as general and administrative expenses.

PETROLEUM AND NATURAL GAS RESERVES AND NET PRE-TAX CASH FLOWS
(Based on Escalating Price Assumptions)

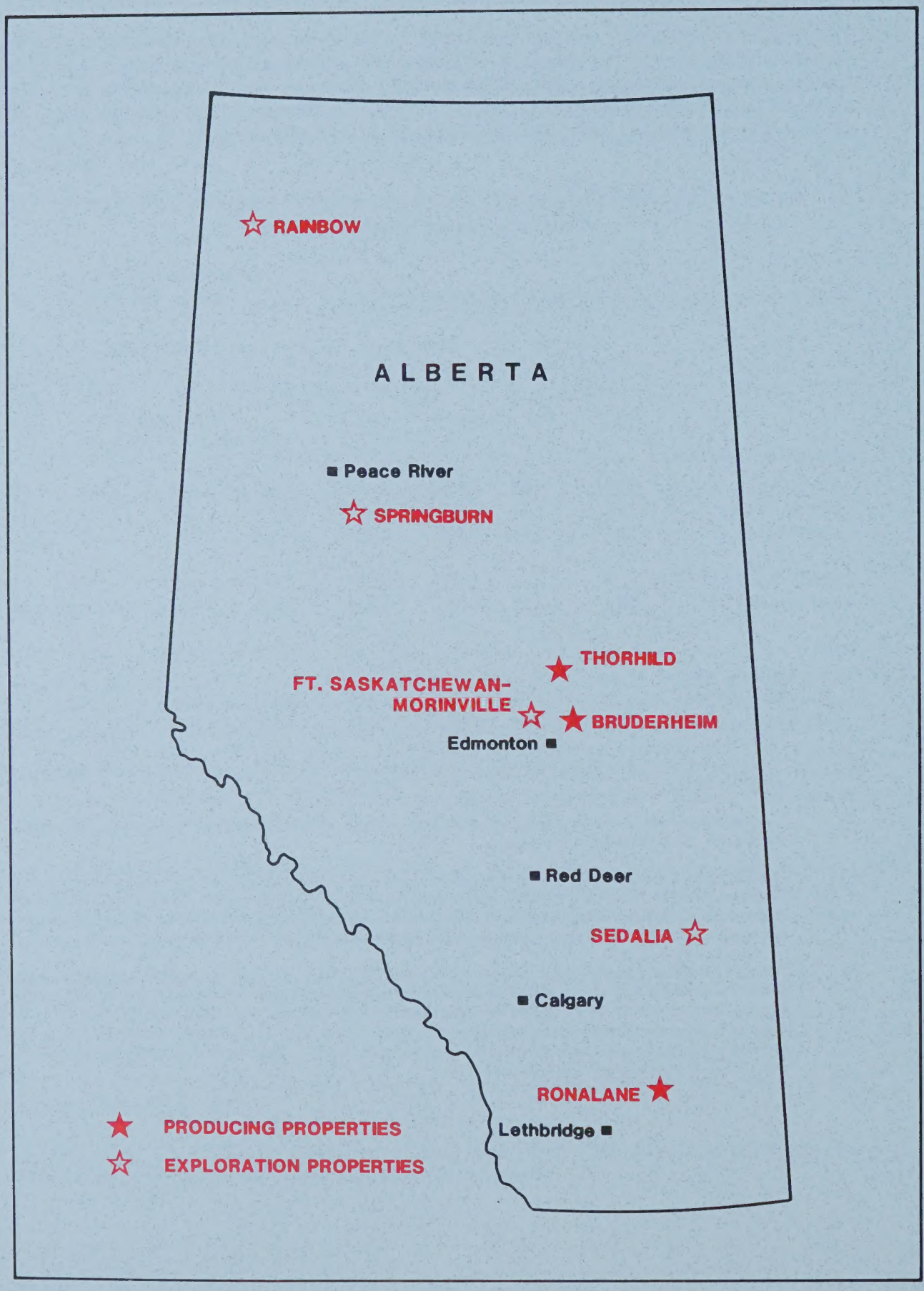
	Corporation's interest in reserves				Present worth of future net pre-tax cash flows			
	Crude Oil & NGLs (Mbls)		Natural Gas (MMcf)		Discounted at			
	Gross [1]	Net [2]	Gross [1]	Net [2]	0%	10%	15%	20%
					(thousands of $)			
Proved [3]								
Producing	178	163	2,506	2,029	5,563	3,382	2,847	2,467
Non-producing	104	82	2,960	2,496	6,746	2,379	1,744	1,357
Total Proved	282	245	5,466	4,525	12,309	5,761	4,591	3,824
Probable Additional [4]	0	0	1,190	1,015	2,462	621	361	223
Total before ARTC	**282**	**245**	**6,656**	**5,540**	**14,771**	**6,382**	**4,952**	**4,047**
ARTC					1,019	552	454	386
Less risking of Probable Additional	0	0	595	508	1,231	311	181	112
TOTAL	**282**	**245**	**6,061**	**5,032**	**14,559**	**6,623**	**5,225**	**4,321**

(1) "Gross" means the total of the Corporation's working interest and/or royalty interest share before deducting royalties owned by others.

(2) "Net" means the total of the Corporation's working interest and/or royalty interest share after deducting the amounts attributable to the royalties payable to others.

(3) "Proved Reserves" means those reserves estimated as recoverable under current technology and existing economic conditions, from that portion of a reservoir, which can be reasonably evaluated as economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.

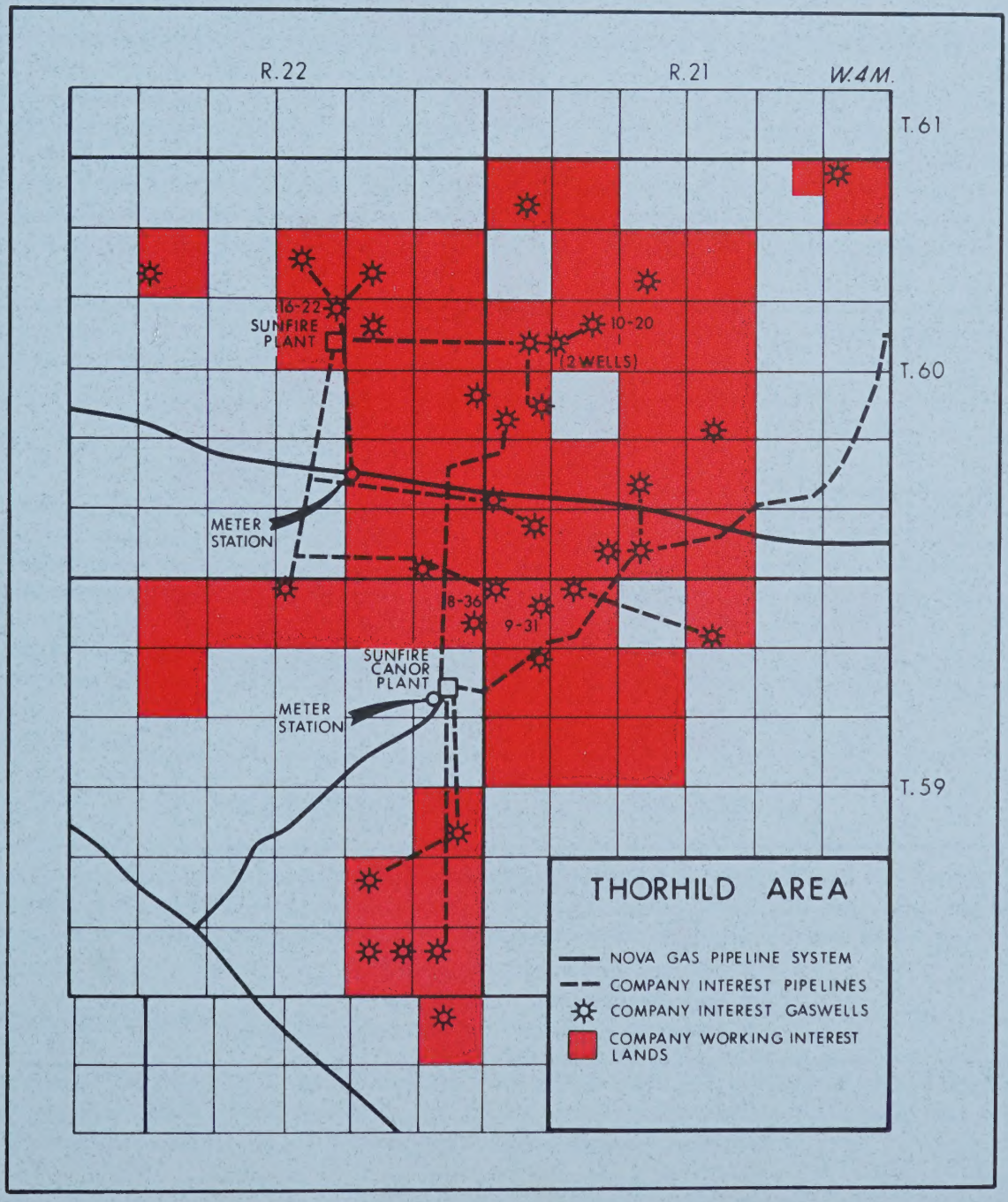
(4) "Probable Additional Reserves" means reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future.

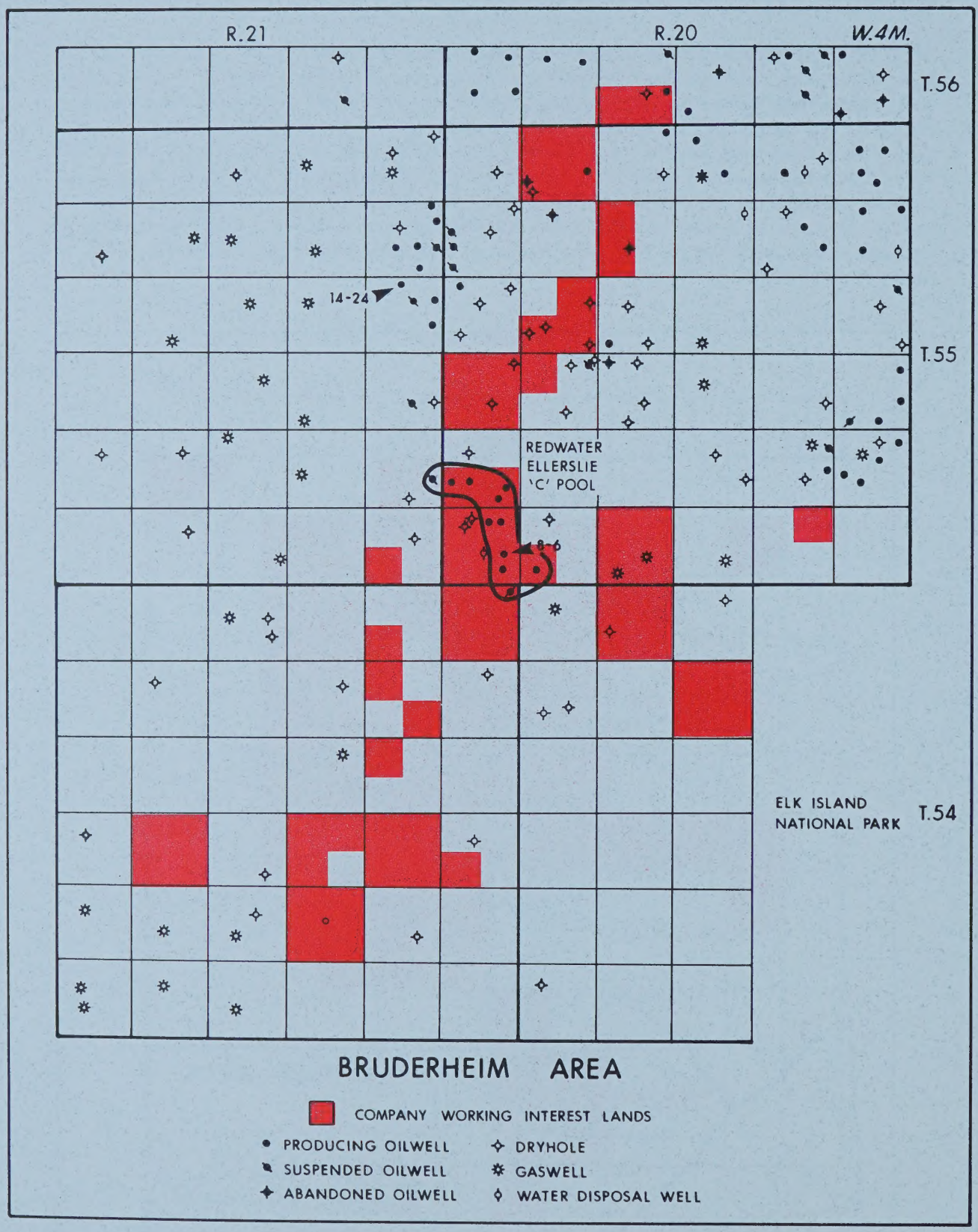

RAINBOW
ALBERTA
Peace River
SPRINGBURN
THORHILD
FT. SASKATCHEWAN-
MORINVILLE
BRUDERHEIM
Edmonton
Red Deer
SEDALIA
Calgary
RONALANE
Lethbridge
PRODUCING PROPERTIES
EXPLORATION PROPERTIES

PRODUCING PROPERTY REVIEW

THORHILD AREA

All of the Company's natural gas production is obtained from the Thorhild area, located 70 kilometres north of Edmonton. Currently the Company has an average working interest of 28% in 17 producing gas wells together with ownership interest in three compression facilities and associated gathering systems. During the year ended July 31, 1996, the Company participated with an average 32% working interest in the drilling of 4 gas wells, all of which were tied into the existing gathering system. Gas production from the 8-36 well declined rapidly, while the remaining wells, 10-20, 16-22 and 9-31 started producing in July 1996 at a combined rate of 2,300 Mcf per day. Natural gas production during the fiscal year had declined by over 50% due to decline of older wells, and drainage by an industry competitor offsetting the Company's main producing gas well. The start-up of production from the new gas wells in July has reversed this decline.




R.21
R.20
W.4M.
T.56
T.55
T.54
14-24
8-6
REDWATER
ELLERSLIE
'C' POOL
ELK ISLAND
NATIONAL PARK
BRUDERHEIM AREA
COMPANY WORKING INTEREST LANDS
PRODUCING OILWELL
SUSPENDED OILWELL
ABANDONED OILWELL
DRYHOLE
GASWELL
WATER DISPOSAL WELL

THORHILD Con't.

As at July 31, 1996, the Company held an average 29% working interest in 54 sections of petroleum and natural gas rights. Over 50% of these lands remain undeveloped and will form the basis of ongoing exploration and development drilling for the next few years. During the forthcoming year the Company will be acquiring additional seismic data to define at least 5 new drilling locations. It is the Company's intention to maintain and increase its natural gas production from the Thorhild area. The ownership of production facilities and associated gathering systems results in low tie-in and operating costs. Consequently, the economic benefits resulting from successful exploration will be higher than other natural gas prospects currently available to the Company.

BRUDERHEIM

In March, 1996, the company participated for a 23% working interest in a development well within the limits of its existing oil pool at Bruderheim. The well was completed as an oil well and began producing at 20 Bbls/d in May. This well together with an adjacent single well battery was tied in by pipeline to the pool's central battery. During the year the pool's oil production averaged 150 Bbls/d (net 35 Bbls/d).

Elsewhere, at Bruderheim, the Company participated with a 30% working interest in the drilling of a well offsetting an industry competitor's well that was flowing in excess of 150 Bbls/d. Although the well, 14-24, encountered the same producing zone, the reservoir quality was poor and the anticipated productivity was insufficient to justify casing, completion and equipping expenditures. Consequently, the Company did not continue to participate in the well. Upon completion, the well's oil production was less that 10 Bbls/d and subsequently the Company sold its interest in the lease and another low productivity oil well.

The Company currently holds an average working interest of 41% in 7,636 acres of undeveloped lands. Exploration of these lands will continue in the forthcoming year.

RONALANE

At Ronalane, the Company has a high working interest of 55% in two oil wells, treating and water disposal facilities. Discovered in 1988, the oil production has since declined to 15 Bbls/d (8 Bbls/d). Although, profitable at prevailing oil prices the economics of the operation are such that any additional oil production would receive a high netback. In October 1995, the Company participated with a 57.5% working interest in the drilling of a development well offsetting existing production. The reservoir encountered at this location had been drained by existing producting wells and the well was therefore abandoned. No further activity other than maintenance of the production equipment is contemplated for this property in the near future.

NEW EXPLORATION AREAS

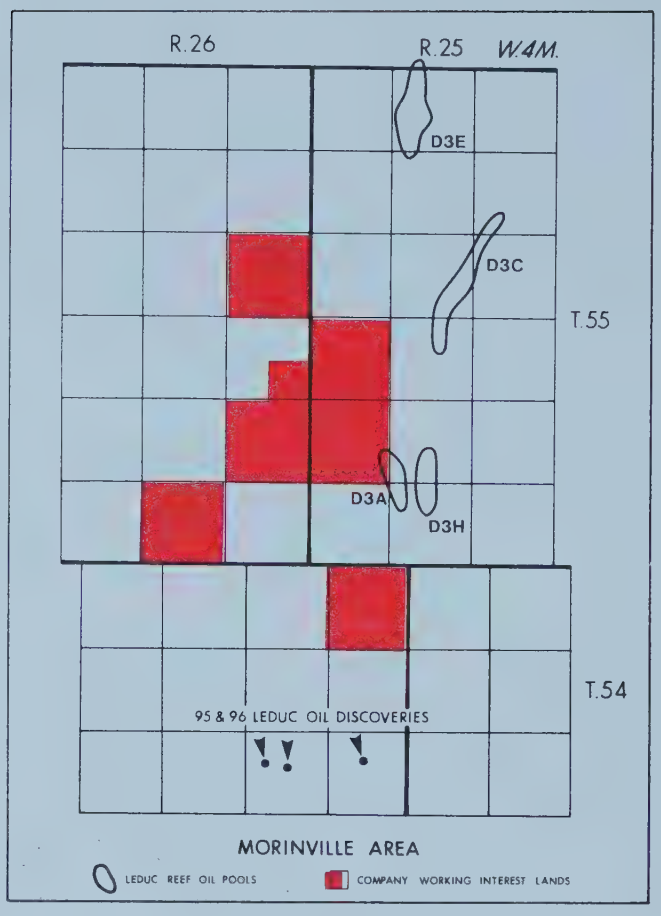
The setbacks suffered at Ronalane and Thorhild caused a delay in the exploration of the Company's prospective land inventory. Activity was restricted to land and seismic data acquisition. At present the Company is developing a broad inventory of drillable prospects on its existing land base in the following areas;

FORT SASKATCHEWAN

An additional 1,921 acres of Crown and freehold leases were acquired bringing the total land holdings of the Company to a 100% working interest in 3,412 acres. A small seismic program will be undertaken later in 1996 to define Cretaceous oil and gas prospects at depths ranging to 1,100 metres.

MORINVILLE

Much of the Company's exploration focus has been devoted to the Morinville area, where light gravity oil trapped within Leduc age reefs at depths of 1,400 to 1,600 metres is the primary exploration target. Crown and freehold leases of 2,080 acres were acquired increasing the Company's landholdings to a 100% working interest in 4,011 acres. Recent discoveries by industry competitors approximately 2 kilometres south of our landholdings illustrates the undiscovered potential of the area. Additional seismic data will be acquired in 1996 in order to define the first exploratory well location. If the seismic data and exploratory drilling gives encouraging results, a large 3-D seismic will be undertaken in 1997.



RAINBOW

The Company has an average 52% working interest in 1,760 acres within the Rainbow oilfield located in Northern Alberta. A 100% owned 480 acre lease has been optioned by a third party subject to the evaluation of seismic data. If the option is exercised, a horizontal re-entry well will be drilled during the winter of 1996/97 to evaluate a Keg River age reef which had previously produced over 226,000 Bbls of light gravity oil from a conventional vertical well over the period 1969 to 1989. The Company will not bear any costs associated with this operation and will receive a royalty on production until all costs are recovered, thereafter the Company will retain a 35% working interest.

SEDALIA

The Company has a 100% working interest in 1,280 of crown leases at Sedalia in East Central Alberta. Agreement has been reached with an offsetting landholder to pool interests such that the Company will have a 50% working interest in 3,840 acres. In 1996, additional seismic data will be acquired over the new lands. Although, initial interest was focused on the Belly River and Devonian age prospects, a recent Cretaceous Glauconite zone gas discovery producing at 4,000 Mcf/d to the northeast, has increased interest in this zone as a secondary target.

SPRINGBURN

During December 1995, a 2,120 metre exploratory well was drilled under a farmout agreement. The primary targets for the well were a Slave Point reef and Granite Wash sandstones. Neither zone was well developed and the well was abandoned. Subsequently, a Crown licence covering 8,960 acres was purchased with the Company participating for a 15% working interest. The Company currently has an average 19% working interest in 11,040 acres, representing a contiguous block of 17 sections. Within this block of lands are abandoned wells that have previously produced 705,000 Bbls of oil from Slave Point and Granite Wash Formations. Since all these wells were located without the benefit of 3-D seismic data acquisition techniques, the potential for additional discoveries or extensions of the existing oil pools is considered to be excellent.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada.

Management acknowledges responsibility for the integrity of the consolidated financial statements and all other financial information in this annual report. Where appropriate, management has made informed judgments and estimates in accounting for transactions which affect the current accounting period but cannot be finalized with certainty until future periods. Company policies and procedures have been implemented to reasonably ensure that transactions are appropriately authorized, assets are safeguarded from loss and financial records are properly maintained. To further minimize risk, management maintains adequate systems of internal control.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and has appointed an Audit Committee. This committee, consisting of a majority of non-management directors, meets with management and external auditors to ensure that each group is properly discharging its responsibilities and to discuss internal control, accounting policies and financial reporting matters. The Audit Committee has reviewed the consolidated financial statements and has reported thereon to the Board of Directors. The Board of Directors has approved the consolidated financial statements for issuance to the Shareholders.

J.M. Westlake
President

P.W. Goodman
Secretary Treasurer

AUDITORS' REPORT

To the shareholders of Sunfire Energy Corporation

We have audited the consolidated balance sheets of Sunfire Energy Corporation as at July 31, 1996 and 1995 and the consolidated statements of income and retained earnings and changes in cash resources for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 31, 1996 and 1995 and the results of its operations and the changes in its cash resources for the years then ended in accordance with generally accepted accounting principles.

Friesen, Henrickson & Shannon
CHARTERED ACCOUNTANTS

Calgary, Canada
October 28, 1996

SUNFIRE ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

July 31, 1996 and 1995

	1996	1995
	$	$
ASSETS		
CURRENT ASSETS		
Cash and term deposits	**44,352**	413,381
Receivables (Note 6)	**900,474**	518,132
Prepaid expenses	**4,673**	6,288
Current portion of notes receivable	-	6,100
	949,499	943,901
NOTES RECEIVABLE	-	6,210
CAPITAL ASSETS (Note 2)	**5,996,994**	5,667,117
	6,946,493	6,617,228
LIABILITIES		
CURRENT LIABILITIES		
Payables and accruals (Note 6)	**1,140,006**	901,488
PROVISION FOR RESTORATION AND ABANDONMENT (Note 3)	**68,300**	68,300
DEFERRED INCOME TAXES (Note 5)	**389,800**	342,700
	1,598,106	1,312,488
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 4)	**4,065,517**	4,087,977
RETAINED EARNINGS	**1,282,870**	1,216,763
	5,348,387	5,304,740
	6,946,493	6,617,228

See accompanying notes

Approved by the Board:

Peter W. Goodman, Director

John M. Westlake, Director

SUNFIRE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

YEARS ENDED JULY 31, 1996 AND 1995

	1996 $	1995 $
REVENUE		
Petroleum and natural gas sales	**1,090,498**	1,338,141
Less Royalties, net of tax credits	**(165,741)**	(125,716)
	924,757	1,212,425
Interest and other income	**147,294**	186,725
	1,072,051	1,399,150
EXPENSES		
General and administrative	**194,515**	192,660
Well operating expenses	**327,854**	303,237
Depletion	**436,475**	448,375
	958,844	944,272
INCOME BEFORE TAXES	**113,207**	454,878
DEFERRED INCOME TAXES (Note 5)	**47,100**	141,900
NET INCOME FOR YEAR	**66,107**	312,978
RETAINED EARNINGS BEGINNING OF YEAR	**1,216,763**	903,785
RETAINED EARNINGS END OF YEAR	**1,282,870**	1,216,763
NET INCOME PER SHARE		
Basic	**1.6 ¢**	7.3 ¢
Average common shares outstanding (Note 1e)	**4,223,998**	4,277,287

See accompanying notes

SUNFIRE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN CASH RESOURCES

YEARS ENDED JULY 31, 1996 AND 1995

		1996 $	1995 $
CASH PROVIDED BY (USED FOR):			
OPERATING ACTIVITIES			
Net income for year		**66,107**	312,978
Items not requiring cash outlays			
Amortization and depletion		**438,402**	450,886
Deferred income taxes		**47,100**	141,900
	*	**551,609**	905,764
Changes in other working capital elements		**(142,209)**	286,932
		409,400	1,192,696
FINANCING ACTIVITIES			
Share capital reacquired		**(22,460)**	(8,244)
Repayment of lease obligations		**-**	(39,524)
		(22,460)	(47,768)
INVESTING ACTIVITIES			
Expenditures on oil and gas properties and equipment		**(1,015,686)**	(1,358,393)
Recoveries of oil and gas property expenditures		**247,407**	-
Notes receivable repayments net of current portion		**12,310**	7,961
		(755,969)	(1,350,432)
NET DECREASE IN CASH DURING YEAR		**(369,029)**	(205,504)
CASH BEGINNING OF YEAR		**413,381**	618,885
CASH END OF YEAR		**44,352**	413,381
CASH FLOW FROM OPERATIONS PER SHARE	*	**13.1¢**	21.2¢

See accompanying notes

SUNFIRE ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1996

1. SIGNIFICANT ACCOUNTING POLICIES

a. Principles of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary Freeman Energy Ltd. All material intercompany balances, transactions and profits have been eliminated.

b. Joint operations

Substantially all of the company's exploration and production activities are conducted jointly with others and the accounts reflect only the company's proportionate interest in such activities.

c. Capital assets

Oil and gas properties

The company follows the full cost method of accounting for oil and gas operations whereby all costs related to the exploration for and development of oil and gas reserves are capitalized. Such amounts include lease acquisition, geological and geophysical exploration, lease rentals on undeveloped properties, overhead directly related to exploration and development activities and costs of drilling productive and non-productive wells. Proceeds from disposal of properties are normally applied against capitalized costs except for significant disposals for which a gain or loss is included in operations.

Depletion of exploration and development costs and amortization of production equipment is provided using the unit-of-production method based upon estimated net proved petroleum and natural gas reserves. In calculating the units of production natural gas and crude oil reserves are converted to energy equivalent units.

In applying the cost method the carrying value of the company's oil and gas properties and production equipment, net of recorded deferred income taxes and accumulated provisions for restoration and abandonment, is compared annually to an estimate of future net cash flow from the production of proved reserves using year end prices, less estimated future general and administrative expenses, financing costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against earnings as additional depletion and amortization.

Furniture and office equipment

Furniture and office equipment is recorded at cost and amortized using the declining balance method at the following annual rates:

Furniture 20%, Computer equipment 30%, Computer software 100%

d. Provision for restoration and abandonment

Estimated future costs for restoring oil and gas properties are being provided for over the life of proved reserves on a unit-of-production basis. Costs are estimated each year by management based on current regulations, technology and industry standards. The annual charge is included in depletion expense and actual site restoration and abandonment expenditures are charged to the accumulated provision account when incurred.

e. Per share data

Cash flow from operations and net income per share are calculated based on the weighted average number of shares outstanding during the year. Fully diluted net income per share is not shown as there are no material dilutive factors.

2. CAPITAL ASSETS

	1996 $	1995 $
Petroleum and natural gas properties and equipment	**8,426,421**	7,658,448
Furniture and office equipment	**33,127**	32,821
	8,459,548	7,691,269
Less accumulated depletion and amortization	**(2,462,554)**	(2,024,152)
	5,996,994	5,667,117

Unevaluated properties with a cost of $870,952 (1995 - $851,434), included in petroleum and natural gas properties, have not been subject to depletion. Administrative overhead capitalized during the year amounted to $75,756 (1995 - $75,756).

3. FUTURE SITE RESTORATION AND ABANDONMENTS

	1996 $	1995 $
Accumulated provision		
Beginning of year	**68,300**	58,300
Annual provision	**-**	10,000
End of year	**68,300**	68,300

At July 31, 1996 expected recoveries relating to site restoration and abandonments are estimated to exceed future costs, accordingly no provision has been recorded for the year.

4. SHARE CAPITAL

a. Authorized

Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares
Unlimited number of Class C, D and E preferred shares

b. Issued

Class A shares	**Number of Shares**	**Amount $**
Balance July 31, 1994	4,278,090	4,096,221
Repurchase of shares	(16,500)	(8,244)
Balance July 31, 1995	4,261,590	4,087,977
Repurchase of shares	(55,500)	(22,460)
Balance July 31, 1996	**4,206,090**	**4,065,517**

5. INCOME TAXES

	1996 $	1995 $
Income before income taxes	**113,207**	454,878
Expected taxes at combined federal and provincial statutory rates of approximately 44.6%	**50,500**	205,000
Increase (decrease) resulting from:		
Non-deductible Crown royalties and payments	**41,500**	70,800
Alberta Royalty Tax Credits	**(30,600)**	(51,600)
Resource allowance	**(19,300)**	(55,500)
Prior years' losses expired	**-**	5,100
Other	**5,000**	(31,900)
Deferred income taxes	**47,100**	141,900

The company has available the following approximate amounts which may be deducted at the rates indicated in determining taxable income for future years.

	1996 $	Rate %
Canadian exploration expense	**1,823,000**	100
Canadian development expense	**1,004,000**	30
Canadian oil and gas property expense	**1,304,000**	10
Undepreciated capital cost	**791,000**	25
Share issue costs	**43,000**	20

6. RELATED PARTY TRANSACTIONS

The company conducts business with Hi-Tech Exploration Services Ltd. and Harlech Exploration Ltd. (companies controlled by an officer of the corporation) on the same terms and arrangements as transactions with outsiders. At July 31, 1996 receivables from these related parties amounted to $11,106 (1995 - $3,634) and payables to these companies amounted to $1,062 (1995 - nil).

7. COMMITMENTS AND SUBSEQUENT EVENT

Subsequent to the year end the company sold 20% of its interests in certain undeveloped lands for $200,000. The company has committed to an expenditure of $100,000 for additional geological and geophysical data to evaluate the properties.

The company is committed to annual rent of $38,940 per year inclusive of estimated operating costs. The present lease for office premises expires October 31, 1997.

NOTES

NOTES

CORPORATE INFORMATION

OFFICERS

John M. Westlake
President and Chief Executive Officer

Peter W. Goodman
Vice-President and Secretary-Treasurer

DIRECTORS

* Roderick Campbell
  Calgary, Alberta
  President of Foxwood Resources Ltd.

* Peter W. Goodman
  Cochrane, Alberta
  Vice-President and Secretary of
  Sunfire Energy Corporation

  Christian Lemmer
  Calgary, Alberta
  President of Lemmer Spray Systems Ltd.

* Lionel A. Singleton
  Calgary, Alberta
  President of Singleton Resources Ltd.

  John M. Westlake
  Calgary, Alberta
  President and Chief Executive Officer of
  Sunfire Energy Corporation

* *Member of Audit Committee*

CORPORATE AND REGISTERED OFFICE

1050, 801 - 6th Avenue S.W.
Calgary, Alberta T2P 3W2
Telephone: (403) 290-1785

AUDITORS

Friesen Henrickson & Shannon
Calgary, Alberta

BANKERS

Hongkong Bank of Canada
Calgary, Alberta

EVALUATION ENGINEERS

Martin Petroleum & Associates
Calgary, Alberta

LEGAL COUNSEL

Bennett Jones Verchere
Calgary, Alberta

Code Hunter Wittman
Calgary, Alberta

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Trading Symbol SFE.A

SUBSIDIARY COMPANY

Freeman Energy Ltd.
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Montreal Trust
Calgary, Alberta

SUNFIRE ENERGY CORPORATION
1050, 801 Sixth Avenue S.W.
Calgary, Alberta
T2P 3W2

Telephone: (403) 290-1785
Facsimile: (403) 269-4349
email: sunfire@cadvision.com